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HERSHEY

CHOCOLATE CORPORATION

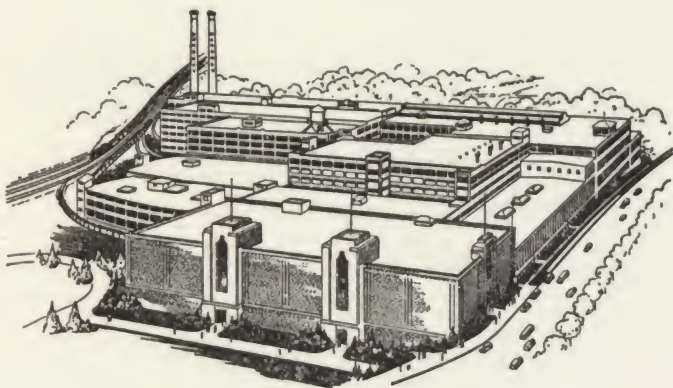
ANNUAL REPORT
DECEMBER 31, 1948



HERSHEY

CHOCOLATE CORPORATION

HERSHEY, PENNSYLVANIA



Executive Offices and Manufacturing Plant

THE HISTORY OF THE

REIGN OF KING CHARLES THE FIRST

BY SAMUEL JOHNSON



BOARD OF DIRECTORS

P. A. STAPLES, *Chairman*

J. J. GALLAGHER

L. W. MAJER

P. N. HERSHEY

W. E. SCHILLER

S. F. HINKLE

D. PAUL WITMER

OFFICERS

P. A. STAPLES, *President*

L. W. MAJER, *Secretary*

W. E. SCHILLER, *Treasurer and Comptroller*

TRANSFER AGENT

CITY BANK FARMERS TRUST COMPANY
NEW YORK

REGISTRAR

GUARANTY TRUST COMPANY
OF NEW YORK

AUDITORS

ARTHUR ANDERSEN & CO.
NEW YORK

*To The Stockholders of
Hershey Chocolate Corporation:*

I am pleased to submit the attached financial statements of Hershey Chocolate Corporation at December 31, 1948, as examined by Messrs. Arthur Andersen & Co.

Sales for 1948 amounted to \$168,566,256 as compared with \$120,658,759 for the preceding year. The sales for 1948 were the largest in the history of the Corporation; however, profit margins were considerably narrower than in the past several years due to the high price of cocoa beans and the increase in other costs and expenses.

In order to provide an adequate supply of cocoa beans to meet consumer demand for the Corporation's products, it has been necessary to maintain a substantial inventory and commitment position with the attendant financial risk. The price of cocoa beans has declined during the past year from the exceedingly high price of a year ago, and as a result we charged approximately \$4,100,000 to cost of sales in order to state 1948 year-end inventories at the lower of cost or market. In addition we provided a reserve of \$3,750,000 for losses on purchase commitments; in making such provision the decline in cocoa bean prices subsequent to December 31, 1948 has been taken into account. The net profit for 1948 amounted to \$8,003,347 after deducting these adjustments.

In recognition of the inventory price risk we appropriated in 1947 \$6,000,000 from the net profit for that year to a reserve for future inventory price decline. Inasmuch as the price of cocoa beans is still many times the price level prior to and during the war period, and in view of the uncertain outlook for cocoa bean and other commodity prices, no reduction has been made in this reserve. After the \$6,000,000 appropriation, the balance of net profit transferred to earned surplus for the previous year of 1947 amounted to \$8,968,494.

Working capital at the close of 1948 amounted to \$37,111,104 as compared with \$34,848,908 at the close of the preceding year. Current assets aggregated \$51,417,313 and were three and one half times current liabilities.

During the year capital expenditures of \$2,400,000 were made on the program of improving the plant and equipment; and, under the present construction budget, additional expenditures totaling approximately \$5,000,000 are indicated for the next two or three years.

In 1948 we adopted a policy of paying dividends in the same year that dividends are declared, and therefore the dividends payable on February 15, 1949, which, under the practice followed in the past, would have been declared at the close of 1948 were not declared until January 1949. Such dividend declarations consisted of the regular quarterly dividend of \$1 per share on the \$4 convertible preference stock, plus an additional dividend of \$1 per share on such stock which is required to be declared before any dividends are declared on the common stock, together with the regular quarterly dividend of \$.37½ per share on the common stock.

The loyalty and cooperation of our officers and employees which contributed to the success of our operation in 1948 is gratefully acknowledged.

Respectfully submitted,

P. A. STAPLES

President

February 9, 1949

HERSHEY CHOCOL

BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash	\$ 7,972,573	
United States Government securities	4,985,841	\$12,958,414
Accounts receivable, less reserves of \$421,113		7,088,960
Inventories (lower of average cost or market)—		
Raw materials, goods in process and		
finished goods	\$30,682,277	
Manufacturing supplies	594,031	31,276,308
Prepaid insurance, taxes, etc.		93,631
Total current assets		<u>\$51,417,313</u>

PLANT AND PROPERTY, at cost:

Land	\$ 117,580	
Buildings and improvements	9,555,889	
Machinery and equipment	15,766,106	
Construction in progress	1,106,253	
	<u>\$26,545,828</u>	
Less—Reserves for depreciation	15,124,136	11,421,692
		<u><u>\$62,839,005</u></u>

NOTE: The convertible preference stock of the Corporation is entitled to receive, upon liquidation (if any) before any distribution to the common stock, and to participate with the common stock in the share of convertible preference stock to one aliquot share for each share of common stock. The convertible preference stock is entitled to cumulative dividends at the rate of 6% per annum, which dividends are declared on the common stock.

TE CORPORATION

DECEMBER 31, 1948

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities.....	\$ 2,909,030
Reserve for Federal and State taxes	7,647,179
Reserve for loss on purchase commitments.....	<u>3,750,000</u>
Total current liabilities	<u>\$14,306,209</u>

RESERVE FOR FUTURE INVENTORY

PRICE DECLINE.....	6,000,000
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CAPITAL STOCK AND SURPLUS:

Convertible preference stock (without par value) (See Note)—

Authorized, 350,000 shares

Issued, 332,493 shares, of which 78,650
have been converted into common
stock; outstanding, 253,843 shares

stated at \$50 per share \$12,692,150

Common stock (without par value)—

Authorized, 3,000,000 shares, of which
761,529 shares are reserved for con-
version of convertible preference stock

Issued and outstanding, 2,057,250 shares 685,750

Earned surplus 29,154,896 42,532,796

\$62,839,005

any distribution of capital assets, \$50 per share and accumulated and unpaid dividends on stock in any distribution of the balance, on the basis of three aliquot shares for each stock, until the convertible preference stock shall have received the further sum of \$50 per of \$4 per share per annum, plus an additional dividend of \$1 per share in any year in

HERSHEY CHOCOLATE CORPORATION

STATEMENTS OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1948

PROFIT AND LOSS

GROSS SALES, LESS DISCOUNTS, RETURNS AND ALLOWANCES		\$168,566,256
COST OF GOODS SOLD, SHIPPING, SELLING, AD- MINISTRATIVE AND GENERAL EXPENSES (including charge of \$4,107,089 to write down inventory to lower of cost or market)		149,591,909
		<u>\$ 18,974,347</u>
PROVISION FOR TAXES ON INCOME:		
Federal income tax	\$ 6,788,000	
Commonwealth of Pennsylvania income tax	433,000	7,221,000
		<u>\$ 11,753,347</u>
PROVISION FOR LOSS ON PURCHASE COMMITMENTS		3,750,000
		<u>\$ 8,003,347</u>
Net profit for the year		<u><u>\$ 8,003,347</u></u>

NOTE: Costs and expenses include provision for depreciation of plant and equipment in the amount of \$676,553.

EARNED SURPLUS

EARNED SURPLUS AT DECEMBER 31, 1947		\$ 25,256,134
NET PROFIT FOR THE YEAR 1948		8,003,347
		<u>\$ 33,259,481</u>
DEDUCT:		
Dividends paid in 1948—		
On convertible preference stock (\$5.00 per share)	\$ 1,269,215	
On common stock (\$2.00 per share)	4,114,525	
	<u>\$ 5,383,740</u>	
Less — Dividends on convertible preference and common stocks declared in December 1947 and paid on February 14, 1948, in- cluded above and charged to surplus in 1947 (see President's letter)	1,279,155	4,104,585
		<u><u>\$ 29,154,896</u></u>
EARNED SURPLUS AT DECEMBER 31, 1948		

AUDITORS' CERTIFICATE

*To the Board of Directors,
Hershey Chocolate Corporation:*

We have examined the balance sheet of Hershey Chocolate Corporation (a Delaware corporation) as of December 31, 1948 and the related statements of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and earned surplus present fairly the financial position of Hershey Chocolate Corporation as of December 31, 1948 and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y.
February 9, 1949.

HERSHEY CHOCOLATE CORPORATION

EXECUTIVE OFFICES AND MANUFACTURING PLANT
HERSHEY, PENNSYLVANIA

WAREHOUSES

Cambridge, Mass.
Chicago, Ill.
Cincinnati, Ohio
Detroit, Mich.
Houston, Texas
Jacksonville, Fla.
Los Angeles, Cal.

Milwaukee, Wis.
New York, N. Y.
Portland, Ore.
St. Louis, Mo.
St. Paul, Minn.
San Francisco, Cal.
Seattle, Wash.

SALES OFFICES

In all principal cities in the United States

HERSHEY'S PRODUCTS

FOR THE CONSUMER

MILK CHOCOLATE BARS

MILK CHOCOLATE KISSES

ALMOND BARS

BAKING CHOCOLATE

SEMI-SWEET BARS

DAINTIES

KRACKEL BARS

BREAKFAST COCOA

MR. GOODBAR

CHOCOLATE SYRUP

HOT CHOCOLATE POWDER

FOR INDUSTRIAL USERS

(Confectionery, Baking, Ice Cream, and other Industries)

CHOCOLATE COATINGS

COCOA POWDER

UNSWEETENED CHOCOLATE

CHOCOLATE SYRUP

COCOA BUTTER





